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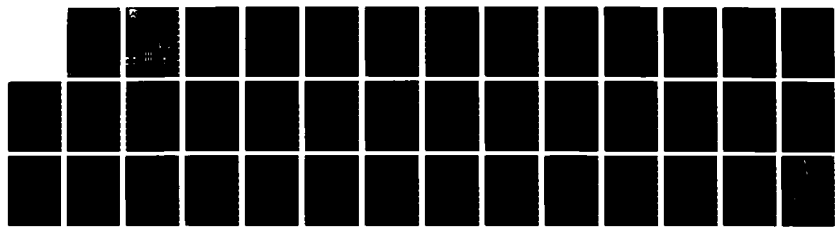
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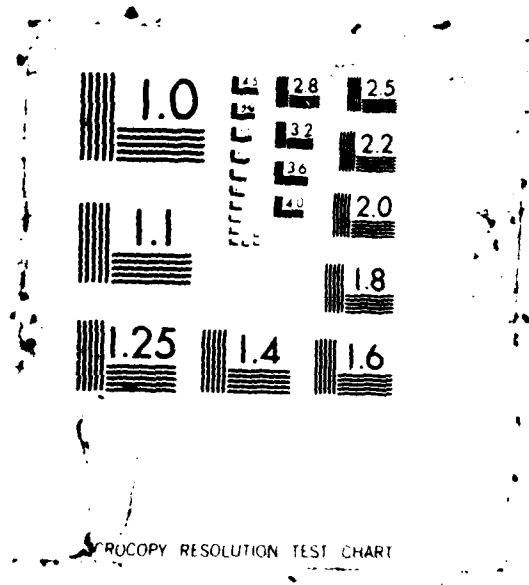
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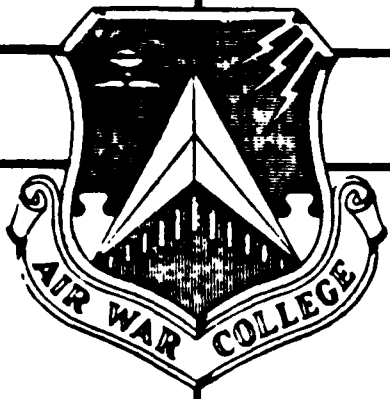
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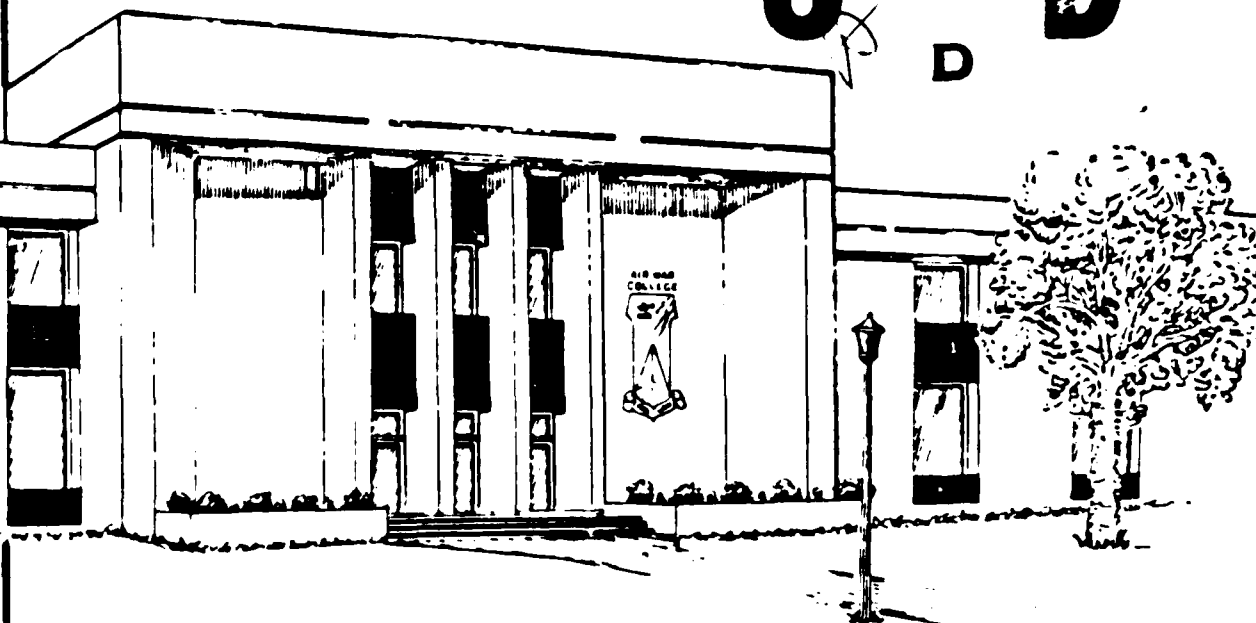
## RESEARCH REPORT

No. AU-AWC-86-177

THE NEW SOVIET LEADERSHIP CONFRONTS A SAGGING ECONOMY

By COLONEL ROBERT L. RHAME

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THE NEW SOVIET LEADERSHIP CONFRONTS A SAGGING ECONOMY

by

Robert L. Rhame  
Colonel, USAF

A RESEARCH REPORT SUBMITTED TO THE FACULTY  
IN  
FULFILLMENT OF THE RESEARCH  
REQUIREMENT

Research Advisor: Mr Clarence Huntley

MAXWELL AIR FORCE BASE, ALABAMA

February 1986

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AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: The New Soviet Leadership Confronts a Sagging Economy

AUTHOR: Robert L. Rhame, Colonel, USAF

> A description of the current state of the Soviet economy and the problems confronting the new Soviet leadership under Mikhail Gorbachev form the basis for an analysis of the Soviet economic system and prospects for its improvement. The relationships between the Soviet system of government, the Communist Party, and the Soviet economy are discussed in order to identify possible courses of action available to the Soviet leadership in their efforts to bolster a sagging economy. These courses of action are then evaluated for their potential success in light of systemic constraints. Further, the author identifies several ramifications economic change may have for Soviet foreign policy and provides recommendations for Western responses to these potential Soviet foreign policy shifts.

## BIOGRAPHICAL SKETCH

Colonel Robert L. Rhame (M.S., North Carolina State University) has served as an Operations Analyst at Headquarters Air Force and at 7th Air Force Headquarters during the Vietnam Conflict. He also performed duties as a Research and Development Project Officer at the Air Force Weapons Laboratory at Kirtland AFB, New Mexico followed by an assignment to the Air Force Manpower and Personnel Center, Randolph AFB, Texas as Chief of the Air Force Military Survey Branch. Colonel Rhame's command experience includes three years at the Air Force Academy as Commander, Cadet Squadron 35 and Commander, 4th Cadet Group and three years as Deputy Commander, 305th Combat Support Group, Grissom AFB, Indiana. He is a graduate of the Air Command and Staff College, class of 1979, and the Air War College, class of 1986.

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## CHAPTER I

### INTRODUCTION

On March 11, 1985 Mikhail Sergeyevich Gorbachev was announced as the new General Secretary of the Central Committee of the Communist Party of the Soviet Union following the death of Konstatin Ustinovich Chernenko. (20:19) At age 54 Gorbachev became the youngest General Secretary since Joseph Stalin and the first Soviet leader born after the Bolshevik Revolution of 1917. (26:26) He is a stark contrast to the aged Soviet hierarchy of the past several decades, and his vigorous, worldly image has prompted speculation of a new approach from the Soviets.

Mikhail Gorbachev was born in 1931 in the Stavropol region of Russia and became a member of the Communist Party in 1952 while attending Moscow University. After receiving his law degree in 1955, Gorbachev returned to Stavropol where he became active in the party and also specialized in running collective farms. In 1970 he was selected first secretary of the regional party, and in 1971 he became a full member of the Central Committee of the Communist Party of the Soviet Union. Gorbachev's jump to the Moscow elite began in 1978 when he became Central Committee secretary for agriculture and was further sustained by his selection to candidate member of the Politburo in 1979 and full membership in 1980. (4:11-12)

Traditionally, new Soviet leaders have taken steps to consolidate their power; however, the speed and scope of Gorbachev's efforts are indeed remarkable. In April 1985 Egor Ligachev and Nikolai Ryzkov, two Gorbachev supporters, were given full membership in the Politburo. Viktor Chebrikov, the Soviet KGB chief, also became a member. In July Grigori Romanov, earlier thought to be a competitor for the position of General Secretary, left the Politburo for "reasons of health." Andrei Gromyko, one of the few remaining members of the Soviet "old guard," was "promoted" to the largely ceremonial position of President of the Supreme Soviet, and another Gorbachev supporter and newly promoted full member of the Politburo, Eduard Shevardnadze, replaced Gromyko as Foreign Minister. (9:2) Finally, another member of the old guard, Nikolai Tikhonov, retired in September 1985, and there are hints that Gorbachev will remove others such as Viktor Grishin and Vladimir Shcherbitsky. (3:2A, 15:65-66) These and other less significant personnel changes mark the pace of Gorbachev's consolidation of power, and we can surely predict that the next meeting of the Congress of the Communist Party of the Soviet Union in early 1986 will result in even more. (25:310)

The new Soviet leadership inherits a military superpower but one fraught with both internal and external problems. The stagnant years of the Brezhnev regime and the interregnums brought about by his shortlived successors,

Andropov and Chernenko, have seriously damaged the Soviet economy. (7:22) This damage, combined with the Soviet system of government, will prove to be Mr Gorbachev's greatest challenge and will most probably affect Soviet dealings with the outside world.

The purpose of this paper is to discuss the nature of the Soviet economic problem, its causes, and possible courses of action available to the Soviet leadership. Finally, we will examine the ways in which the Soviet problem and possible solutions could affect the international environment and U.S.-Soviet relations.

## CHAPTER II

### SOVIET ECONOMIC PROBLEMS

#### Where the Soviet Economy Stands

In 1984, the Soviet economy produced a gross national product (GNP) of \$2 trillion compared to a U.S. GNP of \$3.7 trillion. (34:91) Thus, with approximately 40 million more people than the United States, this other international superpower generated only 54 percent of the U.S. GNP. The Soviet economy has historically lagged well behind that of the U.S., but in recent years, the divergence has increased. In fact, the Soviet economy performed relatively well in the 1950's and 1960's demonstrating an annual GNP growth rate of over 5 percent. Industrial production grew at over 7 percent annually, and agriculture grew at just over 3 percent. However, in the early 1970's, the Soviet economy slowed to an annual growth rate of only 3.7 percent, and by the mid 1970's the rate had dropped to 2.5 percent overall, 3 percent in industry, and 1 percent in agriculture. (18:309) By contrast, the U.S. GNP grew at a rate of 6.9 percent in 1984. (29:28)

#### The Soviet Industrial Sector

Gertrude E. Schroeder, a professor of economics and an expert on the Soviet economic system, cites two causes for the slowdown in the Soviet industrial sector. The first, was a decision in the 1970's to cut growth targets

and the rate of capital investment, and the second a combination of shortages in energy and raw materials and transportation bottlenecks which derived from earlier mistakes in investment allocations. (32:311) Today, the rate of amortization or depreciation of equipment exceeds the rate of investment with the end result that some observers believe as much as 60 percent of Soviet industrial equipment is obsolete. (27:94, 5:82)

The Soviet Union does not lack for energy sources and raw materials, but their cost of extraction is high. Most of these resources are found east of the Urals and in Siberia where the climate hinders extraction, and since production facilities are west of the Urals, the costs of transportation are also high. Additionally, the Soviets rely heavily on foreign sales of energy resources to earn hard currency for purchase of Western goods and technology which in turn reduces the energy available to their own economy. (32:311-312)

#### The Soviet Agricultural Sector

The heavily subsidized Soviet agricultural sector has never consistently performed as well as the Soviet leadership would like. Several reasons account for the disappointing performance including harsh climatic conditions, neglect by Soviet leadership, and all too frequent "experiments" and stop-gap measures. (14:150) In recent years, Soviet grain production peaked in 1978 at 237 million tons, declined to 195 million tons in 1983, and

further dropped to 170 million tons in 1984. (29:28)  
Interestingly, the drops in grain production occurred while Gorbachev was Central Committee secretary for agriculture and obviously had no apparent ill effects on his career. (16:17)

As a result of shortages in grain production, the Soviet Union has had to import substantial quantities of grain from other countries, including the United States, using the hard currency obtained from the sale of raw materials abroad. (29:28) Ironically, some experts believe the Soviets produce sufficient food to meet their needs, but the archaic system of preserving, storing, transporting, and distributing the food results in excessive wastage. (22:48, 29:28)

#### The Soviet Consumer Sector

Another indicator of the state of the Soviet economy is the standard of living enjoyed by the average Soviet citizen. The per capita income is estimated to be approximately one half to one third that of the United States, and while it is growing, it is growing at a very slow rate. (24:159, 34:91) Nevertheless, Soviet consumers have implemented their own means of improving their lot and sidestepping the Soviet system. An estimated 30 percent of consumer goods and services are obtained from the illegal, but tolerated, black market. (5:82) This second economy

evidences the failure of the Soviet government to provide the consumer goods and services desired by the citizenry. (34:96)

Although legal, a similar system of "self help" exists in agriculture. This private sector is based upon the small plots of land which the government allows collective and state farm workers to cultivate for themselves. Although such private plots account for a very small percentage of the cultivated land area, they account for a substantial percentage of total non-grain produce. An estimated 29 percent of meat, 33 percent of egg, 29 percent of milk, 45 percent of fruit, and 30 percent of vegetable production come from these plots. Such statistics must be ideologically embarrassing to the Soviet leadership. (24:151)

## CHAPTER III

### ROOTS OF THE SOVIET ECONOMIC PROBLEMS

#### Problems of Central Planning

The Soviet system of central planning consists of three levels: (1) production units and associations, (2) industrial associations, ministries and departments, and (3) the State Planning Committee (Gosplan) with associated republic gosplans.

With some inputs from the lower echelons, Gosplan prepares the overall control figures for the economic plan to include projected economic growth rates, the distribution of national production and income within the economy, manpower and employment levels, production capacities, financial flows, and limits for investment and material inputs.

These control figures are then distributed through the middle layer of republic gosplans, departments, associations, and ministries to their subordinate production units and associations. These organizations then prepare the detailed draft plan.

The detailed draft plans are then submitted back up through the oversight levels to Gosplan for final approval. Of course, at each level much discussion takes place in order to negotiate competitive claims for resources and judge the reality of production targets. Naturally, the



managers at the production level must be cautious in their planning approach so as to set production targets which they feel confident are well within their capacities and to set resource requirements which are comfortably sufficient.

(21:126-127)

This system of central planning seems at the core of many of the Soviet economic problems. Tatiana Zaslavskaja, a Soviet economic expert and member of the Siberian division of the Soviet Academy of Sciences, criticizes the central planning system in a paper prepared for a study commission set up by the late General Secretary Andropov. In this paper which was somehow leaked to the Washington Post, she recommended a complete overhaul of the central planning system. She observed that the existing system was adequate when the Soviet Union was emerging as an industrial power and the labor force was less educated, but these circumstances have changed significantly. She feels more sophisticated methods are required to deal with advancing technology and complex economic issues. Specifically, she charges the current system with retarding worker and manager initiative and innovation and with preventing the production of quality products. (12:32)

Marshall I. Goldman, Associate Director of the Russian Research Center at Harvard University, states:

Central planning in the Soviet Union penalizes rather than encourages innovation. Soviet industrial ministers and factory managers have traditionally been rewarded for producing more, rather than improved products. Any manager who shuts down the production line in order to

change models or upgrade product quality risks a drop in production and thus a drop in his or her bonus. Seldom is any bonus provided for better quality." (13:60)

Another aspect of the centralized planning system is the pricing of the the finished products. Since market forces are not allowed to function, pricing of products is also centralized, and this leads to some rather unusual results. For example, consumers pay 80 cents a pound for meat costing the state \$4 a pound to produce. (30:1)

Marshall Goldman also provides an interesting example for bread prices as follows:

Bread prices have been held constant for almost three decades, but procurement prices paid to the peasants for their grain have risen; Soviet peasants have come to realize that the best way to feed their livestock is with heavily subsidized bread purchased at a cheap price in the stores rather than with grain from their own fields. Thus, an estimated 5 percent of the bread sold in the Soviet Union is taken back to the farms to feed animals. The livestock in turn is also sold to the state at a high price and resold (when it can be found at state stores) to the peasants at similarly subsidized prices. This meat is then fed to furbearing animals, whose skins fetch the highest prices of all. Thus, while the peasant benefits three ways, the state finds that needlessly large portions of the bread and meat it produces never find their way to the consumers. (12:31)

#### Problems in the Soviet Labor Force

Another contributor to the ills of the Soviet economy is the declining growth of their labor force. While the labor force grew by approximately 24 million in the 1970's, the projection for the 1980's is only 6 million. Additionally, the number of retirees that the Soviet system must support is expected to increase from 37 million today to 80 million by the turn of the century. (29:29)

Overall, the shortage stems from extensive economic development, aging of the population, a low degree of mechanization, demographic trends, and inefficiencies in the use of available labor. (28:19)

From the demographic perspective, part of the problem lies in the location and nature of the "up and coming" labor force. While slavic birthrates have declined, non-slavic birth rates have risen, especially in the Central Asian and Transcaucasus regions. These areas tend to be labor-surplus, but their location is distant from industrial centers and their education levels and cultures differ significantly from the slavic labor force. (28:22)

Further, many managers are prone to aggravate the problem by hoarding workers in order to insure their work force is adequate to meet contingencies. Some managers are also hesitant to fire unproductive workers for fear of losing them without replacement. (29:29)

Finally, social ills, especially alcoholism, plague the labor force. Although the extent of the alcohol problem is difficult to state, the fact that Mr Gorbachev has made such an issue of it attests to its seriousness. Some largely attribute the declining life expectancy of Soviet males to this problem. (22:54)

#### Problems in Soviet Technology

The Soviet Union's technology is well behind Western technology despite huge investments, and this lag has had a serious, adverse effect on the Soviet economy. Gertrude

Schroeder relates that, "GNP per worker in the U.S.S.R. in 1982 was less than two-fifths of GNP per worker in the United States, about three-fifths of Japan's, half of West Germany's and a little under half of Italy's." These disparities are due in large measure to Soviet failure to keep pace with technological advances in industrial equipment. (32:312-313)

The most serious Soviet lag is in microelectronics and computerization, and efforts to reduce the gap with the West will prove both extremely difficult and expensive. (10:107,120) Both the Soviet technology base and the attitudes of many Soviet managers, workers, and ideologues will hamper the widespread computerization of the Soviet economy. Some Soviet workers feel that industrial robots work too fast and have been known to sabotage them. Soviet managers fear technological "experiments" because they mean disruption to the production process, threaten their ability to meet production quotas, and are often unreliable. (29:30, 2:98) In terms of data processing, Soviet managers are concerned because it increases the possibility of outsiders reviewing their records, and Soviet ideologues are concerned because increasing numbers of microcomputers would create another means of exchanging information among people who may not be "right thinking." Even now, copy machines are kept under lock and key for fear of misuse, and the penalty for such misuse is seven years in prison. (2:98,102)

All this is not to say that the Soviets are entirely backward in a technological sense, but historically, their strength has been in basic research. They have stumbled in bridging the gap between their basic research and applied research and production applications. (2:98, 36:49) The Soviets have placed so much emphasis on defense research and development (R&D) that other areas have suffered. One might assume that military R&D should have spinoffs for the civilian sector, but several factors inhibit the transfer of military technology. First, the military has priority for resources. A researcher attempting to translate military R&D to the civilian sector would have difficulty getting the necessary resources. Secondly, the almost paranoid concern for security severely hampers the exchange of information among scientists. Finally, just as in other areas of endeavor, the Soviet system discourages risk taking and innovation among scientists and engineers. (1:33-36)

For the Soviets, the most troublesome aspect of the technology gap with the West must be the prospects of catching up. In the past, the Soviets have managed to overcome shortcomings by mobilizing capital and investing heavily in basic production methods and equipment, but the speed of technological advancement today makes this kind of effort much less effective. What was state of the art a few years ago is often obsolete today, especially in those areas where the technology gap is the largest -- microelectronics

and computerization. Brute force methods are no longer sufficient if the Soviets are to improve their situation.

(13:59)

## CHAPTER IV

### POSSIBLE SOVIET ECONOMIC SOLUTIONS

Mr Gorbachev is keenly aware of his nation's shortcomings and has made it perfectly clear that he intends to take steps to correct them. In a speech before the Central Committee of the Communist Party of the Soviet Union, Mr Gorbachev made the following remarks:

We shall have to achieve a decisive turn in switching the national economy on to the lines of intensive development. We must, we are in[deed] duty bound to attain within a short space of time the most advanced scientific and technical positions, the highest world level in the productivity of social labour. . . . This means steadily giving effect to the planned developments of the economy, strengthening socialist ownership, expanding the rights and enhancing the independence and responsibility of enterprises, heightening their interest in the end results of their work. This means in the final analysis subordinating all economic development to the interests of Soviet people. (14:8-9)

There are a number of avenues that Mr Gorbachev may take to improve the Soviet economy, including short-term, long-term, internal, and external. The purpose of this chapter is to discuss some of these possible solutions and their pros and cons.

#### Internal Options to Improve the Soviet Economy

##### Short-term Actions

Mr Gorbachev has already taken several initial steps in an effort to bolster the Soviet economy. To begin with, he has launched a campaign aimed at disciplining the Soviet labor force by adopting a hardline policy toward alcoholism,

corruption, inefficiency, and absenteeism. His policy calls for fines, firings, or even jail for those managers and workers who are found shirking in their duties, and he has called upon the Communist Party apparatus to apply pressure at every level to put teeth into the policy. (13:57, 6:92)

Mr Gorbachev has also called for an intensification of the Soviet industrial base by retooling and installing more technologically advanced equipment in Soviet factories and for more efficient use of existing equipment. (34:90,92, 13:57) Further, as he implied in the speech quoted above, Secretary Gorbachev is moving toward increased factory autonomy, increased management control over their capital, and greater management input to modernization plans. In an effort to improve the quality of finished goods, Gorbachev will allow high technology industries to raise their prices as much as 30 percent provided their products are high quality. Factories with low quality products will be subject to cuts in prices. (31:32) Gorbachev's eventual goal is to have factories finance their production out of retained profits. This is a significant change to the current practice of returning the profits to central ministries where they are later redistributed to the factories without consideration for which factories made the best use of resources. (34:92)

The core of Gorbachev's short-term technology campaign is computerization of the economy. The Soviets possess an estimated 30,000 mainframe and minicomputers



compared to 620,000 in the U.S., and much of their equipment is obsolete by U.S. standards. The Soviets have announced plans to install half a million computers in the nation's schools; however, the initial increments will have to be imported since there is no acceptable Soviet produced model. (2:98) This move will encounter many problems in addition to those cited earlier. As Dr Harley D. Balzer points out:

Enormous practical problems will also restrict computer use in the Soviet Union. Few Soviet students know how to type. The telephone system does not have the capability for data transmission. The Soviet economy is notoriously insensitive to the consumer, but computer manufacturers must provide services to the user in order to ensure product acceptance. Repair facilities for even the most basic household appliances are scarce. (1:43)

Dr Balzer goes on to point out that, "Computers epitomize the difficulties facing the Soviets in the age of high technology: they must run faster, up an ever steeper slope, just to maintain their position relative to the United States and other nations." (1:43)

On the surface, these changes seem reasonable and will probably stimulate the Soviet economy somewhat. However, Western observers consider these changes as just "tinkering" and predict that they will have no significant, long-term effect. Mr Gorbachev's actions thus far do not address the more fundamental problems inherent in the Soviet economy. The change allowing factories which produce quality products to raise prices and retain profits does nothing to address the way in which they obtain the raw materials necessary for production. A factory that performs well and

profits will still have to compete with other factories for resources, and since pricing is centrally controlled, they cannot improve their situation by offering higher prices. Thus, whatever flexibility the factory may have gained will probably be lost in the resource allocation process performed by the central ministries. (34:90-92)

#### Long-term Possibilities

Whereas Gorbachev's initial moves will probably have some positive effects, there are more drastic measures which might result in more significant and longer-term improvements. To say that these changes are drastic is doubtless an understatement in the context of the Soviet system, and should Mr Gorbachev undertake such changes, there are numerous obstacles facing him.

One possibility is a return to the New Economic Policy (NEP) implemented by Lenin in 1921. This temporary policy allowed market pricing and practices in Soviet agriculture, light industry, and services and was brought about in an effort to overcome the extremely serious economic problems of a young Soviet nation. (33:17-18, 13:61) To some extent, these market practices exist today in the so-called Soviet "second economy" and in the marketing of produce from the institutionally approved private peasant plots. (6:95, 24:150-151) However, legitimizing market pricing mechanisms on a limited scale such as Lenin did will pose several difficulties, and to do so on a large scale seems practically impossible.

In the first place, market pricing would present serious ideological contradictions for the Communist Party because such economic mechanisms have obvious capitalistic overtones. (34:96) After all, Gorbachev is not Lenin with all the latter's power and personal authority, and one can hardly compare the current Soviet economic difficulties to the near disastrous situation which led to Lenin's NEP. (33:18)

Secondly, unleashing market forces could have serious disruptive effects and a great potential for runaway inflation. Marshall Goldman points out that consumer savings in the Soviet Union have grown from approximately 12.6 billion rubles to 187 billion in 1983. This tremendous growth is due largely to the lack of adequate consumer goods, and permitting market forces to operate might result in the disposable income being dumped on the market, leading to serious inflation. (13:63) The potential for inflation would be further increased by the competition among production units for raw materials and resources. Managers faced with production quotas and shortages of resources would doubtless be willing to pay higher prices for those resources.

Another, perhaps more serious, obstacle to significant economic change is the Soviet bureaucracy. The bureaucracy is the heart of centralized planning, and any attempts at decentralization will run headlong into this monolith. Consisting of 64 federal ministries and 23 state

committees and paralleled by a structure of Communist Party organizations with membership totalling over 17 million, the bureaucracy pervades and controls all aspects of Soviet life. (29:28-29) Significant steps to decentralize control not only threaten the positions of the individuals who make up the bureaucracy, they would also threaten the powerful control the central party elite currently maintains over Soviet citizenry. (22:57, 29:29)

In terms of long-range efforts to deal with their lag in technology, a hint of the Soviet perspective is provided by Nikolai M. Sidorov, a chief researcher at the State Planning Committee in Moscow. He states, "We don't lag behind the U.S. in basic research, but when it comes to adapting scientific discoveries to industry, we have a problem." (2:98) The Soviets must find ways to convert scientific thought to scientific action on a much larger scale than they have to date, but such actions as with other Soviet actions will encounter the same obstacles -- centralized control and bureaucracy. (13:71)

While there are many obstacles to significant change, some experts on the Soviet system believe Gorbachev may be able to make some progress. Dr Jerry F. Hough feels that Mr Gorbachev recognizes the shortcomings of the Soviet economy and will "launch an attack on the central state apparatus in Moscow." (17:42) Still others believe that while segments of the Soviet intelligentsia see "tinkering" as not enough, there will be considerable resistance from

powerful elements of the hierarchy to any changes which reduce the control of the central ministries or which introduce market forces into the economy. (4:18) Whatever Mr Gorbachev elects to attempt, the longer he waits, the stiffer the opposition may become and the less he may feel obligated to introduce significant change. As his short-term initiatives take effect, the Soviet economy will probably register modest improvements. Hence, there may well be less motivation to undertake risky, potentially disruptive economic reforms. (13:58)

#### External Actions to Improve the Soviet Economy

Soviet efforts to improve their economy will probably affect their dealings with the West and with their allies and client states. The West offers an opportunity to improve the Soviet technology while simultaneously representing a potential threat which could divert Soviet energies away from economic reform and towards a costly arms race. Vladimir Lomeyko, a spokesman for the Soviet Foreign Ministry recently stated, "We want to set our house in order. We need time and money to do so. We do not want to spend more on arms." (31:33)

Soviet allies and client states represent a drain on the Soviet economy in the form of subsidies and unreimbursed aid. While arms sales in exchange for hard currency may help the Soviets, much of their support for other nations ends up on the debit side of the balance sheet. (23:149, 39:997-1002) Thus, in order to reduce expenditures, especially

in terms of hard currency, the Soviets may begin to reexamine their assistance to other nations.

#### Dealing with the West

In assessing the Soviet economic situation and how it might affect Soviet dealings with the West, several possibilities come to mind, including technology transfer, foreign investment, and arms control. From the outset, Mr Gorbachev has vigorously sought to get the U.S. Strategic Defense Initiative (SDI) on the bargaining table. Mr Gorbachev's concern over SDI probably reflects Soviet recognition of their shortcomings in high technology and the potential for a U.S. breakthrough which would necessitate expensive countermeasures development on their part. Not only do the Soviets doubt their ability to master the necessary technology to match U.S. SDI research and development, they also fear the prospect of another costly arms race during a time when non-defense sectors of their economy require substantial investment to improve. (35:15, 8:34)

These concerns may well be at the heart of the recent flood of Soviet arms reductions proposals. By linking SDI to arms limitation negotiations, the Soviets hope to generate enough pressure from both inside and outside the U.S. to achieve some form of agreed limitation on SDI research and development. To this end, the U.S. can expect the Soviets to place considerable emphasis on

convincing the NATO allies that SDI is not in their best interests and jeopardizes the negotiations at Geneva.

(38:48)

Dr Jerry Hough believes that SDI may in fact offer Mr Gorbachev a political lever to support any efforts at systemic economic reform in the Soviet Union. Dr Hough agrees that significant economic reform is difficult for any Soviet leader. He reminds us that historically Soviet leaders have used foreign threats to justify their economic programs. However, if Mr Gorbachev emphasizes short-term military threats, the net result might be internal pressure to increase military spending to the detriment of the non-military sectors of the economy. On the other hand, SDI represents a long-term threat which Mr Gorbachev could well use to justify long-term economic reform and efforts to reduce the Soviet lag in high technology. (17:48) Thus, even if Mr Gorbachev fails to get U.S. agreement to limit SDI research and development, he may still have a means of using SDI as a lever for economic reform as opposed to a short-term arms race.

Another means of improving the Soviet technology situation is through the acquisition of Western technology. The Soviets have undertaken extensive efforts in this regard through purchase or even theft of Western equipment and technology and by the use of open sources of literature such as may be found in the U.S. patent office and scientific journals. (26:120) While these methods are no doubt

beneficial to the Soviets, they do not solve the fundamental problems of their system. Specifically, it is one thing to copy an item and something else to master the basic technology that led to its development. Further, the introduction of one advanced element into the Soviet system is often hampered because it is incompatible with the rest of the system. (13:71)

Finally, the Soviets could turn to foreign investment as a means of upgrading specific elements of their economy. To date, however, the Soviets have resisted this course of action. The "contaminating" effects of increased foreign presence and contact with Soviet citizenry no doubt outweigh the benefits of such joint ventures in the view of Soviet leadership. (13:70)

#### Dealing with Allies and Client States

The Soviet economic situation may also portend changes in their dealings with allies. In a detailed analysis of Soviet expenditures to maintain or increase Soviet influence and control abroad, Charles Wolf, Jr. estimates that the Soviets spent between \$35 and \$46 billion for such purposes in 1980. These figures take into account the hard currency gains the Soviets obtained from the sale of military hardware, and except for the incremental costs of the war in Afghanistan, they do not include any direct military expenses. (39:999) More recent estimates place the costs of the war in Afghanistan and support for Cuba and Vietnam alone at \$12 billion a year. (27:85)



While these costs may seem small for a \$2 trillion economy, they do represent lost opportunities for investment at home. In fact, Soviet subsidies to Eastern Europe have decreased since the early 1980's, and there is evidence that the Soviets are adopting a "Soviet Union first" attitude in their dealings with Eastern Europe. Thus, inspite of a growing sense of urgency among most Eastern European nations to increase their dealings with the West in order to improve their economic situations, the Soviet Union seems bent on having Eastern Europe help the Soviet economy. Such help will probably be in the form of increased East European investment in Soviet energy production and in forced sales of high quality East European goods to the Soviet Union instead of to the West in exchange for hard currency.

(11:75, 37:9)

Just how much these Soviet "hardline" policies will affect their relations with Eastern Europe remains to be seen. To the extent that they worsen East European economies, we can expect heightened tension and even increased public dissent in the hardest hit East European nations. However, the Soviets have repeatedly demonstrated their determination to keep their allies in line, and we can expect them to continue to do so. (11:86)

Beyond Eastern Europe, the Soviets may also look for ways to cut costs. However, Mr Gorbachev publicly reaffirmed Soviet support for wars of national liberation in

a speech to the Central Committee of the Communist Party of the Soviet Union (CPSU) as follows:

The CPSU is an international party by its nature. People abroad who share our views may rest assured: in the struggle for peace and social progress the Party of Lenin will, as always, closely cooperate with fraternal Communist, workers' and revolutionary-democratic parties, and will champion the unity and active cooperation of all revolutionary forces. (14:10)

Thus, it would appear that while the Soviets may reconsider the nature and extent of their support to Third World nations, they do not intend to back away from them entirely.

## CHAPTER V

### CONCLUSIONS AND RECOMMENDATIONS

Although the new Soviet leadership is faced with serious problems, one would be remiss in saying that those problems are survival threatening. However, the new leadership recognizes that economic backwardness hampers their pursuit of world domination and limits their options for dealing with the West. Further, the Soviets will encounter increasing difficulty selling their brand of communism to Third World nations unless they get their economic house in order.

General Secretary Gorbachev, along with his new cadre of associates, has stated his determination to take the actions necessary to revitalize the Soviet economy, and his relative youth may give him the time span of control he needs to prod the system to life. Nevertheless, the obstacles to change are many in number and vast in size. The widespread and systemic nature of Soviet economic problems will mean that meaningful solutions can only result in an evolutionary manner. There are no quick fixes, and yet, many of the problems are compounding in less time at an ever increasing rate.

Mr Gorbachev's short-term actions will stimulate the Soviet economy and perhaps make systemic change even less attractive and even more difficult to justify. Any long-

term changes which Mr Gorbachev undertakes will take years to evaluate, and if they are ineffective or insufficient, the Soviets will find themselves even further behind than they are now.

For the next several years, how the United States responds to Soviet initiatives and challenges, and the role we choose to play in Soviet efforts to correct their economic situation may ultimately prove critical to both sides. In this regard, there seem to be two basic rules which the United States should apply in every decision and in every transaction with the Soviets. First, U.S. interests must always take priority and must never be sacrificed purely for the sake of detente and "good will." Second, the United States should allow the Soviet system to show itself for what it really is. We should avoid any actions which would serve to bolster their economy while taking prudent actions to widen the economic and technological gaps.

Using these ground rules, we should not barter away the Strategic Defense Initiative. Pushing the technology inherent in SDI can only serve to increase the U.S. technology lead over the Soviets while simultaneously creating investment paradoxes for them.

The United States should avoid transferring technology to the Soviets or their allies to the greatest extent possible. The U.S. should seek the cooperation of its allies in this regard.

The United States should be willing to enter trade agreements with the Soviet Union where such agreements are clearly beneficial. For example, selling grain to the Soviets benefits the U.S. economy while diverting hard currency from theirs.

Should the Soviet Union in fact tighten the economic hold on their East European allies, the economies of these nations may suffer considerably. Many of these nations have looked to the West in recent years for loans and investments to improve their economies, and they may again if the Soviet actions prove debilitating. In fact, if the situation proves untenable, public dissent may force some form of action by these governments. In this regard, the United States should work with its allies to identify any actions which might serve to undermine the Soviet control and influence of these nations. The West must exercise great care, however, to avoid prompting the Soviets to take drastic actions in response.

While Mr Gorbachev has stated that the Soviet Union will continue to support "wars of national liberation," he may have second thoughts if faced by a determined United States willing to raise the costs and risks of such ventures. The war in Afghanistan has proven expensive for the Soviets, and if the outlook for expansionism in other parts of the world appears similarly costly, they may reevaluate their options.

Finally, the United States must resist temptations to make deep cuts in the defense budget. Certainly, U.S. attempts to balance the federal budget will require a serious reexamination of spending priorities and resources. Mr Gorbachev knows this as well as anyone, and he will undoubtedly make it part of his game plan. His attacks on SDI and his flood of arms control initiatives are aimed at reducing the pressure on the Soviet economy. Additionally, he hopes to gain the support of U.S. allies and the American public to oppose SDI by linking it to progress in arms control negotiations. Likewise, his peace offensive is aimed at lulling the West into a false sense of security which will not only create public and Congressional pressures for reduced defense spending, it will also serve to give the Soviets the time they need improve their economy and to "catch up" in technology.

A United States that is willing to confront and compete with the Soviet Union at every turn now will stand a far better chance of withstanding the Soviet challenge in the future.

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